



**THE CONCEPT OF FINANCIAL STABILITY OF INSURANCE
COMPANIES AND ITS THEORETICAL BASIS**

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ABSTRACT	KEY WORDS
<p>This article discusses the issues of improving the practice of ensuring the financial stability of insurance companies, and discusses the scientific and theoretical views of foreign and domestic economists on the development of the insurance market and ensuring the financial stability of insurance companies. It also covers the classification of financial stability of insurance companies and factors affecting the financial stability of insurance companies. In addition, practical conclusions and theoretical recommendations are formulated to improve the practice of ensuring the financial stability of insurance companies.</p>	<p>Insurance companies, insurance premium, insurance obligation, financial stability, insurance activities, ensuring stability, financial resources, investments.</p>

Introduction

At a time when further reform of the national insurance market and ensuring its rapid development, the introduction of new types of insurance services in high demand, and increasing consumer confidence in the insurance market are the most pressing issues of the day, the negative impact of a number of factors on the development of insurance services requires the implementation of appropriate work aimed at developing and introducing an innovative mechanism in the insurance sector, taking into account the real reality and its specific features in our country, as well as advanced foreign experience. As a result, the insurance sector should serve to ensure its long-term progressive development by further increasing the attractiveness of each potential policyholder to this type of activity.

The Resolution of the President of the Republic of Uzbekistan No. PQ-4412 dated August 2, 2019 “On measures to reform the insurance market of the Republic of Uzbekistan and ensure its accelerated development [1]” sets various tasks, including improving the regulatory framework in the insurance sector, including the consistent implementation of standards and recommendations of international organizations and best world practices in this area, as well as increasing the level of capitalization, solvency and financial stability of professional participants in the insurance market, improving the quality of their assets, as well as developing the investment activities of insurers. The “Development Strategy of New Uzbekistan for 2022-2026” [2] has also been developed. The development strategy is devoted to programmatic and targeted tasks that need to be implemented in the economic sector in 2022 and subsequent years, and the third large group of goals is called “Intensive development of the national economy and ensuring high growth rates”. The well-developed socio-economic development

strategy defines the goals and objectives of economic reforms. In implementing the set tasks, a number of goals are included: increasing the role of the insurance sector, studying and discussing international experience in protecting the real sector of the economy, foreign and domestic investments, small businesses and private entrepreneurship through insurance, developing insurance services provided to citizens and increasing the insurance culture of the population, improving prudential norms for regulating the insurance market, and digitizing insurance activities and ensuring information security. Based on the above reforms, it is undoubtedly the most urgent issue on today's agenda to assess the development trends and prospects of the insurance services market of our country, to identify the factors affecting the development of the insurance sector and their degree of influence, to identify fundamental problems related to this, and to develop proposals and recommendations aimed at solving them, based on national and foreign experience.

Review of Literature on the Topic

According to foreign professor L.A. Orlanyuk, insurance companies expand their opportunities to calmly cover losses incurred from insurance operations at the expense of profits from investment activities. This ensures their position in the market in a competitive environment [3].

According to the well-known economist A.K. Shikhov, the insurance market is a system of economic relations between policyholders (insured person, beneficiary) whose property interests need protection in the event of unforeseen events, and insurers who provide this protection at the expense of an insurance fund formed from paid insurance premiums [4].

According to Russian scientist E.V. Kolomina, insurance, as one of the important financial institutions of society, consists of two components. First, insurance is one of the types of business. Accordingly, the expression “insurance business” appeared, reflecting the economic relations of participants in insurance activities and their results. Secondly, insurance is an institution that contributes to the life and activities of all members of society and the smooth functioning of the economy [5].

Scientist, professor S.L. Yefimov in his research said that the insurance portfolio is the liability of an insurance company or reinsurance company for all existing insurance or reinsurance contracts. The actual number of insured objects or the number of contracts issued in the current activity of the insurance company [6].

Russian scientists L.I. Korchevskaya and K. Ye. According to Turbin, insurance is a set of special redistributive relations between its participants in the formation of a target insurance fund at the expense of monetary contributions intended to compensate for possible extraordinary and other losses to enterprises and organizations or to provide material assistance to citizens [7].

Local scientist I.Kh. Abdurakhmonov in his research outlined his views on the principles of insurance portfolio formation, the formation of insurance premiums, the introduction of new technologies into the industry to increase them, changes in the system, new forms of competition, and the increase in the insurance portfolio [8].

Research Methodology

The article used scientific observation, a systematic approach, and research methods such as induction and deduction, comparison, and graphing. Based on the analysis of existing methods and approaches in the insurance market, proposals and recommendations were developed to ensure the financial stability of insurance activities in Uzbekistan.

Analysis and Discussion of Results

In the conditions of a market economy, the state has used all its capabilities to develop the insurance system, creates a legal framework that promotes the development of the insurance system, helps to find financial resources for the establishment of insurance companies, and carries out work related to licensing these companies.

When analyzing the indicators of financial stability of insurance companies, it is important to classify the external and internal factors affecting it and reveal their main characteristics (Table 1).

Table 1. Classification of factors affecting the financial stability of insurance companies [9]

External factors		Internal factors	
Directly affected	Indirectly affected	Directly affected	Indirectly affected
State regulation of insurance companies	External, internal economic and political situation	The number, development and stability of the number of clients	General strategy of the company
Tax, currency, credit and customs policy	Level of macroeconomic indicators	The volume and specialization of the company's activities	Diversification of the insurance portfolio and the volume of insurance services
Inter-financial relations between corporate structures	State of development of financial market conditions	The level of development of modern risk management	Amount of private equity and insurance reserves

Various factors affect the financial stability of each sector, in particular, the factors affecting the financial stability of insurance companies are divided into two, external and internal factors. The activities of companies are important in the rapid development of the insurance market, which is also reflected in the attitude of society to the insurance sector, and maintaining their financial stability in the long term is aimed at assessing the influencing factors and creating mechanisms for minimizing risks.

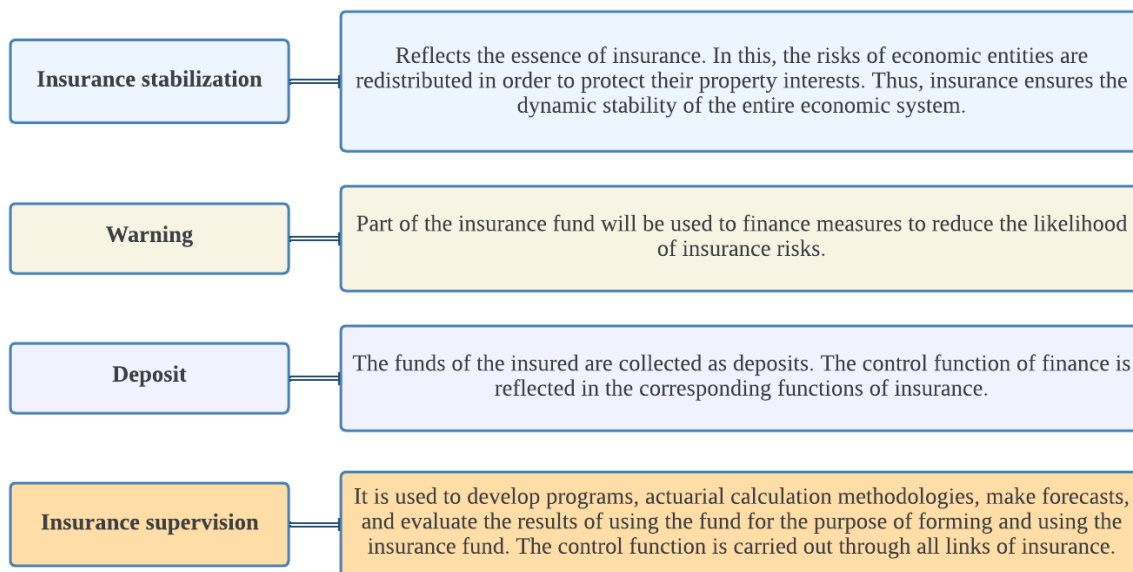


Figure 1. The distribution function of finance in individual functions in the insurance sector [10]

Also, when building an insurance portfolio, an insurance company should pay special attention to its composition. If the number of insurance contracts for one type of insurance is disproportionate to the share of premiums received under them, and this, in turn, is disproportionate to the size of the corresponding insurance sum, then the insurance portfolio is considered unbalanced.

It should be remembered that in unstable economic conditions, an insurance company is exposed to the influence of external (exogenous) and internal (endogenous) factors and must take them into account in its activities. Thus, the activities of an insurance company include operational and entrepreneurial risks that significantly affect its financial stability and solvency, and the prevention and correct assessment of risks, in turn, can significantly positively affect the financial stability of insurance activities.

One of the main reasons for this is the limited number of employees of the Insurance Supervision Inspectorate under the Ministry, who mainly keep statistics. As a result of insufficient information on insurance activities in the regions, the population's confidence and understanding of insurance is not fully formed. This has a negative impact on the growth of the industry's share in GDP and the financial stability of companies (Figure 2).

The share of insurance premiums in GDP

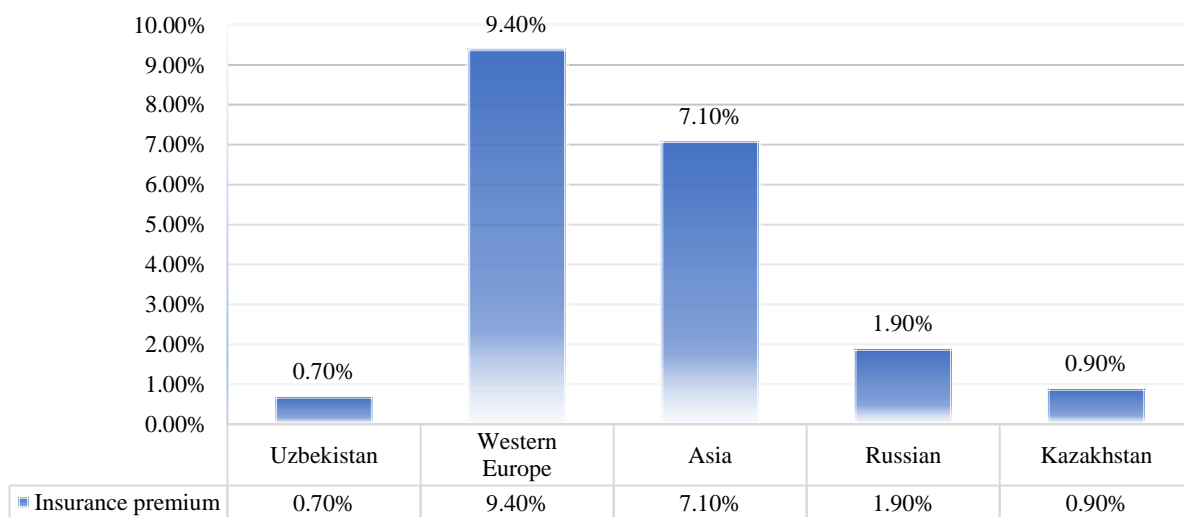


Figure 2. Share of insurance premiums of foreign countries in GDP 2022 y. (in percent) [11]

The law “On Insurance Activity”, adopted 15 years ago, does not fully meet today’s requirements. In particular, certain types of compulsory insurance have been introduced on the basis of government decisions and are not regulated by law. In addition, the lack of involvement of large international insurance and reinsurance companies in the country’s insurance market, as well as the incomplete implementation of international norms, standards and principles of the International Association of Insurance Supervisors and financial reporting and accounting is an obstacle for medium-sized companies to obtain international ratings.

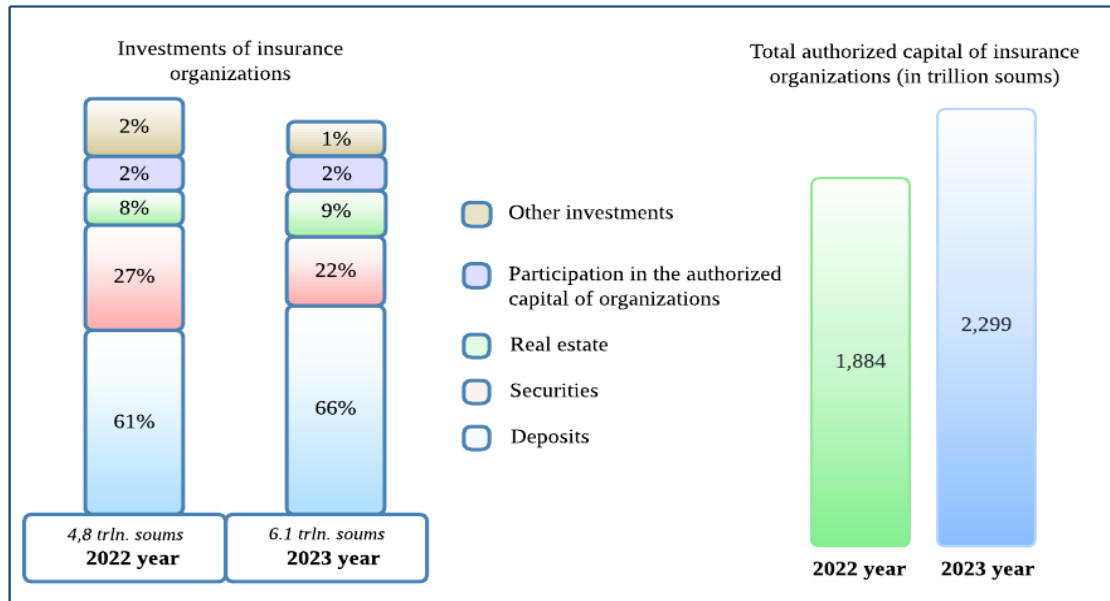


Figure 3. Financial indicators of the insurance market of Uzbekistan [12]

According to the data in the figure above, in the indicators of investment activity affecting the financial stability of insurance organizations, deposits accounted for 66 percent in 2023, which did not differ significantly compared to 2022, while in the securities sector, it was 22 percent in 2023, a decrease of -5 percent compared to 2022, and we can also see that real estate accounted for 9 percent in 2023, an increase of 1 percent compared to 2022, while the participation in the authorized fund of organizations decreased by 2 percent, and the other investments segment decreased by -1 percent compared to 2022. The total authorized capital of insurance companies in 2023 will be 2.3 trillion. amounted to soums, an increase of 22% compared to 2022, which, in turn, indicates an improvement in the financial stability of insurance organizations. In terms of total written insurance premiums in the first quarter of 2023, the three largest state insurance companies - "Uzbekinvest", "Kafolat", "Uzagrosugurta" - were the first, second and fourth largest insurance companies, respectively, with a total market share of 36.3%.

Conclusions and Suggestions

Further reform of the national insurance market and its rapid development, introduction of new types of insurance services in high demand, increase consumer confidence in the insurance market, as well as reform of the insurance market in accordance with the State Program for the implementation of the Action Strategy on five priorities and the following rapid development:

- improving the regulatory framework in the field of insurance, including the consistent introduction of international standards and recommendations, as well as best international practices in this field;
- institutional development of activities aimed at ensuring the stability of this market through the application of effective mechanisms of regulation and prudential control;
- increase the level of capitalization, solvency and financial stability of professional participants of the insurance market, optimize the structure of their assets, as well as the development of investment activities of insurers;

- development of the insurance market infrastructure on the basis of activating the activities of insurance brokers, improving the system of insurance agents, introducing bank insurance mechanisms, as well as increasing the role of professional participants in the insurance market in general;
- strengthening the protection of the rights of consumers of this service and the subjects of insurance relations, increasing public confidence in insurance, ensuring the transparency of the insurance market;
- increase the volume and variety of insurance services provided through the introduction of innovative insurance products and the development of traditional products in high demand;
- extensive use of modern information technologies in the field of insurance, active development of electronic forms of insurance services;
- improving the system of training, retraining and advanced training of specialists in the field, the use of modern methods of education in the field of insurance, targeted incentives for research activities;
- the main directions are to form and maintain a positive image of the national insurance market and increase its investment attractiveness, including through the integration of the national insurance market with international and foreign insurance markets.

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